

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Schoolcraft County Public Transit	County Schoolcraft
Fiscal Year End 9/30/06	Opinion Date 12/7/06	Date Audit Report Submitted to State 1/26/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


SE
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-786-3111	
Street Address 901 Ludington Street		City Escanaba	State MI
Authorizing CPA Signature 		Printed Name Alan M. Stotz, CPA	Zip 49829
		License Number 1599539	

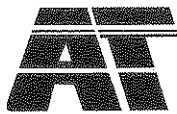
SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

COMPONENT UNIT FINANCIAL REPORT

Year Ended September 30, 2006

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Schoolcraft County Public Transit System

We have audited the accompanying statement of net assets of the Schoolcraft County Public Transit System (a component unit of Schoolcraft County), as of and for the year ended September 30, 2006, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Transit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Schoolcraft County Public Transit System and do not purport to, and do not, present fairly the financial position of the County of Schoolcraft, Michigan, as of September 30, 2006, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schoolcraft County Public Transit System, as of September 30, 2006, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reported dated December 7, 2006, on our consideration of the Schoolcraft County Public Transit System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations,

Board of Directors
Schoolcraft County Public Transit System

contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages three through five are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Information and the Financial Assistance - Federal and State, as listed on the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company P.C.

Certified Public Accountants

December 7, 2006

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

Management's Discussion and Analysis

This section of the Schoolcraft County Public Transit System's annual financial report presents our discussion and analysis of the Transit's financial performance during the year ended September 30, 2006. Please read it in conjunction with the Transit's financial statements.

The following table summarizes the net assets as of September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Assets:		
Current Assets:		
Cash and equivalents	\$ 153,127	\$ 131,486
Federal operating assistance receivable	4,475	-
State grants receivable	33,383	121,602
Accounts receivable	16,769	11,748
Interest receivable	42	174
Prepaid expenses	<u>5,317</u>	<u>5,517</u>
Total Current Assets	213,113	270,527
Property and equipment, net of accumulated depreciation	<u>556,662</u>	<u>377,717</u>
Total Assets	<u><u>\$ 769,775</u></u>	<u><u>\$ 648,244</u></u>
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 6,508	\$ 73,645
Due to State	1,285	-
Accrued payroll and fringes	<u>12,870</u>	<u>12,377</u>
Total Current Liabilities	20,663	86,022
Noncurrent Liabilities:		
Accrued fringe benefits	<u>24,679</u>	<u>22,132</u>
Total Liabilities	<u><u>\$ 45,342</u></u>	<u><u>\$ 108,154</u></u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 556,662	\$ 377,717
Unrestricted	<u>167,771</u>	<u>162,373</u>
Total Net Assets	<u><u>\$ 724,433</u></u>	<u><u>\$ 540,090</u></u>

The Transit provides transportation services to Schoolcraft County. During the year we provided service to 35,172 passengers. This reflected a 7.5% decrease over fiscal year 2005's ridership totals.

The following table provides comparative revenue and expense information for the fiscal years ended September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 110,719	\$ 84,642
Operating expenses	<u>(576,310)</u>	<u>(548,367)</u>
Operating Loss	(465,591)	(463,725)
Nonoperating revenues	<u>649,934</u>	<u>633,543</u>
Increase (Decrease) in Net Assets	184,343	169,818
Net Assets, beginning of year	<u>540,090</u>	<u>370,272</u>
Net Assets, end of year	<u>\$ 724,433</u>	<u>\$ 540,090</u>

The Transit had a \$178,945 increase in net property and equipment during the 2006 fiscal year. This was due to the completion of the Transit building project. The building project houses all of the administrative and operating activities of the Transit. The total cost of this project amounted to approximately \$421,454. This was financed through the sale of the old Transit building and through state and federal capital assistance grants.

The operating expenses increased during fiscal year 2005 by \$27,943. This was due primarily to an increase in fuel costs due to the sharp rise in fuel prices and an increase in depreciation expense due to the new building addition. The depreciation expense increase is of no real effect to the Transit operations, as most of the depreciation expense is related to state and federal contributed capital.

The operating revenues increased by \$26,077 or 30.8% when compared to 2005's operating revenues. This was due to an increase in the rates charged to Hiawatha Behavioral Health for the transportation of their consumers. This contract had not seen a fare increase in a number of years. Nonoperating revenues increased \$16,391 when compared to 2005's nonoperating revenues, due primarily to an increase in the federal Section 5311 funding and a slight increase in the tax millage collections.

When taken all together there was an increase in net assets of \$184,343 for the fiscal year 2006. Again, this is due primarily to the capital additions during the year. We will continue to monitor state and federal operating assistance grants to determine appropriate expense levels. We are insulated from cuts to a certain degree due to the operating tax millage that helps support the Transit operations. For the 2006 fiscal year the property tax collected for Transit use was \$130,131.

This financial report is designed to provide our taxpayers and citizens with a general overview of the Transit's finances and to demonstrate the Transit's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the Transit office directly at P.O. Box 182, Manistique, Michigan, 49854.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

STATEMENT OF NET ASSETS

September 30, 2006

ASSETS

CURRENT ASSETS:

Cash and equivalents	\$153,127
State and Federal grants receivable	37,858
Accounts receivable	16,769
Interest receivable	42
Prepaid expenses	<u>5,317</u>

TOTAL CURRENT ASSETS 213,113

PROPERTY AND EQUIPMENT, less accumulated
depreciation of \$312,641

556,662

\$769,775

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 6,508
Due to State	1,285
Accrued payroll and fringes	<u>12,870</u>

TOTAL CURRENT LIABILITIES 20,663

NONCURRENT LIABILITIES:

Accrued fringe benefits:	
Vacation leave	6,671
Sick leave	17,890
Personal leave	<u>118</u>

TOTAL NONCURRENT LIABILITIES 24,679

NET ASSETS:

Invested in capital assets, net of related debt:	
State and federal	504,574
Local	52,088
Net assets, unrestricted	<u>167,771</u>

TOTAL NET ASSETS 724,433

\$769,775

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS

For the year ended September 30, 2006

Operating revenues	\$110,719
Operating expenses	<u>(576,310)</u>
	OPERATING LOSS (465,591)
Nonoperating revenues	<u>649,934</u>
	INCREASE IN NET ASSETS 184,343
Net assets, beginning of year	<u>540,090</u>
	NET ASSETS, END OF YEAR <u>\$724,433</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

STATEMENT OF CASH FLOWS

For the year ended September 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$105,698
Cash payments to employees for services	(395,012)
Cash payments to suppliers for goods and services	<u>(183,447)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(472,761)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Operating grants received	351,265
Tax levy received	<u>130,131</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>481,396</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital grants received	209,985
Capital acquisitions	(258,953)
sale of fixed assets	<u>60,301</u>
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	<u>11,333</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	<u>1,673</u>
NET INCREASE IN CASH AND EQUIVALENTS	21,641
CASH AND EQUIVALENTS, beginning of year	<u>131,486</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$153,127</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	(\$465,591)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	61,748
Changes in assets and liabilities:	
(Increase) decrease in receivables	(5,021)
(Increase) decrease in prepaid expenses	200
Increase (decrease) in payables	(67,137)
Increase (decrease) in accruals	<u>3,040</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(\$472,761)</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Schoolcraft County Public Transit System conform to generally accepted accounting principles as applicable to governmental units. Significant policies are as follows:

(1) Enterprise Fund - The Schoolcraft County Public Transit System, a component unit enterprise fund of the County of Schoolcraft, accounts for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Transit applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

(2) Basis of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Transit maintains its accounting records on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when incurred.

(3) Accounts Receivable - The Transit follows the direct write-off method in recognizing uncollectible accounts. An allowance for bad debts has not been established because the amount is considered to be immaterial. Receivables are written off on a policy based on how recently payments have been received.

(4) Inventories - Office and garage supplies are expensed when purchased. Items on hand at year-end were considered to have a dollar value not significant enough in amount to materially affect the financial statements, therefore, inventory was not recorded.

(5) Fixed Assets and Depreciation - Fixed assets are stated at cost when purchased or fair market value at date of gift. Costs relating to maintenance and repairs are charged to expenses, whereas those for renewals and betterments, when significant in amount, are capitalized. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives.

(6) Property Taxes - Current property taxes are levied as of December 1 each year and attach an enforceable lien on the property. Current property taxes levied are collected by other local units of government until the subsequent year when revenue is recognized for the current budget year. Current property taxes from the December 1 levy, which are received

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

prior to December 31, are normally held in the Schoolcraft County's Trust and Agency Fund. The Transit subsequently receives its portion of the levy from this fund. For the 2005 calendar year the Transit levied .4806 mills.

(7) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(8) Advertising - Advertising costs are expensed as incurred. Total advertising expense for the fiscal year was \$2,672.

NOTE B - CASH AND EQUIVALENTS

The composition of cash and equivalents as reported on the Statement of Net Assets are presented below:

Demand deposits	\$109,160
Certificate of deposits	<u>43,967</u>
	<u>\$153,127</u>

All cash and equivalents are on deposit with the Schoolcraft County Treasurer with the Treasurer listed as the signatory. The insurability of this money is therefore not determinable. Cash and cash equivalents as reported in the Statement of Net Assets and the Statement of Cash Flows are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.

NOTE C - STATE AND FEDERAL GRANTS RECEIVABLE

The following is a summary of the state and federal grants receivable as of September 30, 2006:

Federal Section 5311 Operating Assistance - FY06	\$ 925
- FY04	3,550
State Act 51 Operating Assistance - FY06	<u>33,383</u>
TOTAL	<u>\$ 37,858</u>

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE D - PROPERTY AND EQUIPMENT (continued)

Major classes of property and equipment consist of the following:

	<u>9/30/05 Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>9/30/06 Balance</u>
Purchased with Capital Grants:				
Land, not being depreciated	\$ 10,000	\$ -	\$ -	\$ 10,000
Building in progress, not being depreciated	149,540	-	149,540	-
Buildings and improvements	36,400	359,525	36,400	359,525
Vehicles	388,551	-	-	388,551
Equipment	60,449	-	2,960	57,489
Accumulated depreciation	<u>(278,592)</u>	<u>(60,028)</u>	<u>(27,629)</u>	<u>(310,991)</u>
Subtotal	<u>366,348</u>	<u>299,497</u>	<u>161,271</u>	<u>504,574</u>
Purchased with Transit Funds:				
Building and improvements	38,636	51,928	38,636	51,928
Vehicles	888	-	-	888
Equipment	922	-	-	922
Accumulated depreciation	<u>(29,077)</u>	<u>(2,152)</u>	<u>(29,579)</u>	<u>(1,650)</u>
Subtotal	<u>11,369</u>	<u>49,776</u>	<u>9,057</u>	<u>52,088</u>
TOTAL	<u>\$ 377,717</u>	<u>\$ 349,273</u>	<u>\$ 170,328</u>	<u>\$ 556,662</u>

Useful lives of fixed assets are as follows:

Building and improvements	20 years
Vehicles	5-7 years
Equipment	5-10 years

Depreciation expense was \$61,748 for the fiscal year.

NOTE E - RETIREMENT PLAN

Employees are covered by the Michigan Municipal Employees Retirement System. Retirement funding is based on a percentage of payroll and covers all eligible employees. Since the Schoolcraft County Public Transit System utilizes the Schoolcraft County payroll system and Transit employees are considered to be County employees, all retirement funding and reporting is done by County personnel with the applicable disclosures reported within the County financial statements. The Public Transit System reimburses the County for actual costs and classifies those as fringe benefits.

NOTE F - ACCUMULATED UNPAID VACATION AND SICK LEAVE

Vacation is earned on a variable basis, depending upon length of employment. Upon retirement or termination, employees are paid for all outstanding days accumulated at their current rate of pay. The amount of accrued vacation time at September 30, 2006 is \$6,671.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE F - ACCUMULATED UNPAID VACATION AND SICK LEAVE (continued)

Sick leave is earned at the rate of one day per month, not exceeding twelve days per year. Upon retirement or disability, employees are eligible to receive one-half of such sick leave accumulated, up to a maximum of one hundred days, at their current rate of pay. The amount of accumulated sick leave recorded in this financial statement at one-half of the total accumulated sick leave is \$17,890. Actual sick leave available to be used upon illness is \$35,780.

Changes in accumulated compensated absences is as follows:

	9/30/05 Balance	Additions	Deletions	9/30/06 Balance
Vacation	\$ 5,027	\$ 1,644	\$ -	\$ 6,671
Sick	16,340	1,550	-	17,890
Personal	765	-	647	118
TOTAL	<u>\$ 22,132</u>	<u>\$ 3,194</u>	<u>\$ 647</u>	<u>\$ 24,679</u>

NOTE G - MAINTENANCE AGREEMENT

An agreement exists between the Public Transit System and El-Com Services for servicing of radio equipment at an annual fee of \$1,236, payable quarterly.

NOTE H - CONTRACT FOR SERVICES

A contract for transportation services is in effect with Hiawatha Behavioral Health for transporting patients. The total amount received under this contract for the year ended September 30, 2006 was \$81,438.

The Public Transit System also has other minor contracts with various local establishments.

NOTE I - GRANT CONTINGENCIES

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenses under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. As of September 30, 2006, no such contingencies for questioned costs were known to exist.

NOTE J - RISK MANAGEMENT

The Transit is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Transit is covered with purchased commercial insurance for these risks through the County of Schoolcraft. Settled claims relating to commercial insurance have not exceeded the amount of coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF OPERATING REVENUES

For the year ended September 30, 2006

OPERATING REVENUES:

Demand response (farebox)	\$ 19,635
Special contract fares	<u>91,084</u>
TOTAL OPERATING REVENUES	<u>\$110,719</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF OPERATING EXPENSES

For the year ended September 30, 2006

	<u>Opera- tions</u>	<u>Mainten- ance</u>	<u>Adminis- tration</u>	<u>Total System</u>
Labor:				
Operators' wages	\$222,273	\$ -	\$ -	\$ 222,273
Other salaries and wages	-	-	36,292	36,292
Fringe benefits	119,986	-	19,501	139,487
Services:				
Advertising fees	-	-	2,672	2,672
Audit cost	-	-	2,100	2,100
Other services	17,253	-	-	17,253
Fuel and lubricants	47,467	-	-	47,467
Materials and supplies	842	24,715	-	25,557
Utilities	9,525	-	-	9,525
Casualty and liability costs				
- Liability & damage insurance	11,697	-	-	11,697
Miscellaneous:				
Travel and training	239	-	-	239
Depreciation	<u>61,748</u>	<u>-</u>	<u>-</u>	<u>61,748</u>
TOTAL OPERATING EXPENSES	<u>\$491,030</u>	<u>\$ 24,715</u>	<u>\$ 60,565</u>	<u>\$ 576,310</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF NONOPERATING REVENUES

For the year ended September 30, 2006

LOCAL GRANTS:	
Operating millage & other taxes	\$130,131
STATE OF MICHIGAN OPERATING GRANTS:	
Formula operating assistance (Act 51)	202,178
FY 00, 01, 02, 03, 04 & 05 adjustment	(3,992)
FEDERAL OPERATING GRANTS:	
U.S. Department of Transportation Grant Section 5311	64,500
FY04 adjustment	3,550
CAPITAL GRANTS	209,985
INTEREST EARNED	1,541
GAIN ON SALE OF ASSETS	<u>42,041</u>
TOTAL NON-OPERATING REVENUES	<u>\$649,934</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF STATE AND FEDERAL CAPITAL ASSETS CONTRIBUTED

For the year ended September 30, 2006

Balance, beginning of year	\$366,348
Add: Capital contract - 02-0085Z6	8,735
- 02-0085Z9	43,750
- 02-0085Z11	157,500
Deduct: Depreciation of assets purchased from contributed equity	(59,475)
Net book value of assets sold	<u>(12,284)</u>
BALANCE, END OF YEAR	<u>\$504,574</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF CAPITAL CONTRACTS

For the year ended September 30, 2006

GRANTOR: Michigan Department of Transportation

<u>Contract Number</u>	<u>Grant Amount</u>	<u>Previously Earned</u>	<u>Currently Earned</u>	<u>Amount Remaining</u>
02-0085Z6	152,420	142,288	8,735	1,397
02-0085Z8	48,500	-	-	48,500
02-0085Z9	43,750	-	43,750	-
02-0085Z11	157,500	-	157,500	-
02-0085Z14	<u>121,745</u>	<u>-</u>	<u>-</u>	<u>121,745</u>
	<u>\$ 523,915</u>	<u>\$ 142,288</u>	<u>\$ 209,985</u>	<u>\$ 171,642</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS

For the year ended September 30, 2006

	<u>Operating</u>	<u>Total</u>
Labor	\$ 258,565	\$ 258,565
Fringe benefits	139,487	139,487
Services	22,025	22,025
Fuel and lubricants	47,467	47,467
Materials and supplies	25,557	25,557
Utilities	9,525	9,525
Casualty and liability costs	11,697	11,697
Miscellaneous	239	239
Depreciation	<u>61,748</u>	<u>61,748</u>
	576,310	576,310
Less ineligible expenses	<u>(63,365)</u>	<u>(63,365)</u>
TOTAL ELIGIBLE EXPENSES	<u>\$ 512,945</u>	<u>\$ 512,945</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS

For the year ended September 30, 2006

	<u>Federal Section 5311</u>	<u>State Operating Assistance</u>
EXPENSES:		
Labor	\$ 258,565	\$ 258,565
Fringe benefits	139,487	139,487
Services	22,025	22,025
Fuel and lubricants	47,467	47,467
Materials and supplies	25,557	25,557
Utilities	9,525	9,525
Casualty and liability costs	11,697	11,697
Miscellaneous	239	239
Depreciation	<u>61,748</u>	<u>61,748</u>
TOTAL EXPENSES	<u>576,310</u>	<u>576,310</u>
LESS INELIGIBLE EXPENSES:		
Depreciation	61,215	61,215
MPTA dues	50	50
Audit cost	<u>2,100</u>	<u>-</u>
	<u>63,365</u>	<u>61,265</u>
NET ELIGIBLE EXPENSES	<u>\$ 512,945</u>	<u>\$ 515,045</u>
SECTION 5311 CONTRACT PERCENTAGE-15.0%	<u>\$ 76,942</u>	
MAXIMUM SECTION 5311 REIMBURSEMENT	<u>\$ 64,500</u>	
STATE OPERATING ASSISTANCE REIMBURSEMENT 39.2545%		<u>\$ 202,178</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF MILEAGE DATA, VEHICLE HOURS, AND PASSENGERS

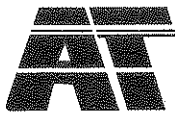
For the year ended September 30, 2006

	Public Transpor- tation Mileage	Vehicle Hours	<u>Passengers</u>			Elderly Persons With Dis- abilities
			<u>Regular</u>	<u>Elderly</u>	<u>Disabled</u>	
DEMAND RESPONSE:						
First Quarter	37,671	1,504	4,384	1,137	3,040	600
Second Quarter	40,438	1,615	4,646	1,433	3,563	265
Third Quarter	40,627	1,628	3,759	1,229	3,614	307
Fourth Quarter	<u>42,180</u>	<u>1,684</u>	<u>2,048</u>	<u>1,475</u>	<u>3,417</u>	<u>255</u>
	<u>160,916</u>	<u>6,431</u>	<u>14,837</u>	<u>5,274</u>	<u>13,634</u>	<u>1,427</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

See accompanying notes to financial statements.

FINANCIAL ASSISTANCE - FEDERAL AND STATE



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON AN COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors of the
Schoolcraft County Public Transit System
Manistique, Michigan 49854

We have audited the financial statements of the Schoolcraft County Public Transit System, as of and for the year ended September 30, 2006, and have issued our report thereon dated December 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Transit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Transit, in a separate letter dated December 7, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Transit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

Board of Directors
Schoolcraft County Public Transit System
Page 2

opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Transit Board, management and state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

Anderson, Tackman & Company P.C.

Certified Public Accountants

December 7, 2006

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SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF AWARDS - FEDERAL AND STATE

For the year ended September 30, 2006

<u>Federal Grantor/Program Title</u>	<u>State Grantor Number</u>	<u>CFDA Number</u>	<u>Award Amount</u>
U.S. DEPARTMENT OF TREASURY:			
Passed through MDOT			
Section 5311			
Operating assistance - FY06	02-0085Z12	20.509	\$ 64,500
Operating assistance - FY04	02-0085Z7	20.509	3,550
Capital assistance	02-0085Z6	20.509	8,735
Capital assistance	02-0085Z9	20.509	43,750
Capital assistance	02-0085Z11	20.509	157,500
MICHIGAN DEPARTMENT OF			
TRANSPORTATION:			
Operating assistance - Act 51 - FY06	-	-	<u>202,178</u>
TOTAL CAPITAL AND OPERATING ASSISTANCE			<u>\$ 480,213</u>

<u>Unexpended Balance 09/30/05</u>	<u>Federal Revenue</u>	<u>State Revenue</u>	<u>Other Revenue</u>	<u>Expendi- tures</u>	<u>Unexpended Balance 09/30/06</u>
\$ -	\$ 64,500	\$ -	\$ -	\$ 64,500	\$ -
-	3,550	-	-	3,550	-
-	6,988	1,747	-	8,735	-
-	35,000	8,750	-	43,750	-
-	126,000	31,500	-	157,500	-
<u>-</u>	<u>-</u>	<u>202,178</u>	<u>-</u>	<u>202,178</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 236,038</u>	<u>\$ 244,175</u>	<u>\$ -</u>	<u>\$ 480,213</u>	<u>\$ -</u>

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

SCHEDULE OF INELIGIBLE COSTS

For the year ended September 30, 2006

<u>Ineligible Costs</u>	<u>Section 5311</u>	<u>Act 51</u>
1. <u>Depreciation</u> - Depreciation accrued by public operators on state-funded equipment is ineligible according to state guidelines. With state approval local depreciation can be eligible. There was \$533 of eligible local depreciation in the year ended September 30, 2006.	\$ 61,215	\$ 61,215
2. <u>MPTA Dues</u> - A percentage of the MPTA dues are ineligible expenses per the State Expense Manual. This years ineligible percentage was 6.8 percent.	50	50
3. <u>Audit Cost</u> - Because the Transit did not need a single audit in compliance with OMB Circular A-133 the audit cost is an ineligible expense for the Section 5311 reimbursement.	2,100	-



ANDERSON, TACKMAN & COMPANY, PLC

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REPORT TO MANAGEMENT

Board of Directors
Schoolcraft County Public Transit System
Manistique, Michigan 49854

We have audited the financial statements of the Schoolcraft County Public Transit System for the year ended September 30, 2006, and have issued our reports thereon dated December 7, 2006. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Schoolcraft County Public Transit System. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Schoolcraft County Public Transit System are described in Note A of the financial statements.

Significant Accounting Policies (continued)

The application of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Schoolcraft County Public Transit System during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates.

Useful lives of fixed assets are estimates. These estimates have been made using the guidance provided by the Michigan Department of Transportation on depreciable lives of assets.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do have a significant effect on the financial reporting process.

The audit adjustments that had a significant effect on the Transit's financial reporting process related primarily to the recording of receivables and payables with respect to state operating assistance.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Schoolcraft County Public Transit System or a determination

of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Transit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the Schoolcraft County Public Transit System, for the year ended September 30, 2006, we considered the Transit's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 7, 2006, on the financial statements of the Schoolcraft County Public Transit System

We have already discussed many of these comments and suggestions with various Transit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the Transit Board, management and state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Tackman & Company P.C.
Certified Public Accountants

December 7, 2006

SCHOOLCRAFT COUNTY PUBLIC TRANSIT SYSTEM

COMMENTS AND RECOMMENDATIONS

September 30, 2006

FAREBOX COLLECTIONS

1. We noted during our audit that lockboxes are not used on the buses and that drivers maintain their own log sheets. This creates a risk of unrecorded fares. We recommend that the drivers begin using the lockboxes to further enhance the internal controls over farebox collections.
2. We also noted that farebox receipts are not always deposited with the County on a timely basis. Frequently there are substantial amounts of farebox receipts kept at the Transit office prior to deposit. We recommend that deposits be made on a more timely basis and that cash held at the Transit office be kept to a minimum.
3. We noted that fare cards sold did not always track from the driver log summaries to the County transmittal advice. We recommend that an effort be made to reconcile the fare cards sold, as listed on the drivers logs, to the County transmittal advice.

BOARD MINUTES

During our review of the board minutes we noted that the minutes were not signed. We recommend that each month's board minutes be signed by the board secretary once these minutes have been approved.